

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 NEA-10 ISO-00 SP-02 USIA-06 AID-05

EB-07 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 DODE-00 PM-04 H-02 L-03 PA-01

PRS-01 /110 W

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R 060735Z APR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8236

INFO AMEMBASSY CAIRO

AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

C O N F I D E N T I A L TOKYO 5000

E.O. 11652: GDS

TAGS: EAID, EFIN, JA, EG

SUBJECT: JAPANESE AID TO EGYPT: SUEZ CANAL EXPANSION LOAN, AND EXIM
BANK CREDIT LINE

REFS: A. TOKYO 4436; B. TOKYO 1033

SUMMARY: ABOVE AND BEYOND 50 MILLION DOLS. EMERGENCY AID AND
50 MILLION DOL. PROJECT AID DISCUSSED IN REFTEL A, JAPANESE
HAVE BEGUN DISBURSEMENT OF 127 MILLION DOL. EQUIVALENT LOAN
TO EGYPT FOR SUEZ CANAL EXPANSION PROJECT, AND PLAN TO COMPLETE
DISBURSEMENT NO LATER THAN APRIL 1980. ADDITIONALLY, GOJ
HOPES TO CONCLUDE SOON INTERGOVERNMENTAL AGREEMENT PROVIDING
FOR 100 MILLION DOLS. JAPAN EXIM BANK CREDIT LINE, WHICH WOULD
CONSIST OF SUPPLIERS' CREDITS TO JAPANESE EXPORTERS SELLING
TO EGYPT. CREDIT LINE WOULD BE USED WITHIN THREE YEAR PERIOD
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FOLLOWING EXECUTION OF FIRST EXIM LOAN AGREEMENT. THUS,

JAPANESE HAVE COMMITTED THEMSELVES TO A SUBSTANTIAL PROGRAM OF ASSISTANCE TO EGYPT RUNNING AT LEAST THROUGH 1979. END SUMMARY.

1. SUBSEQUENT TO CONVERSATION REPORTED REF. A, EMBOFF MET AGAIN WITH NAKAMURA, DEPUTY DIR. OF FONOFF FIRST ECONOMIC COOPERATION DIV., TO REVIEW STATUS OF
A) JAPANESE PROJECT LOAN IN SUPPORT OF SUEZ CANAL EXPANSION PROJECT, PROMISED BY THEN DEPUTY PM MIKI DURING HIS VISIT TO EGYPT IN LATE 1973, AND
B) JAPAN EXIM BANK CREDIT LINE PROMISED BY INTERNATIONAL TRADE AND INDUSTRY MINISTER KOMOTO DURING HIS VISIT TO EGYPT IN JAN. 1976. THIS LOAN AND CREDIT LINE, TOGETHER WITH PROJECT AND NON-PROJECT AID REPORTED REFTEL A, GIVE MORE COMPLETE PICTURE OF JAPANESE AID TO EGYPT NOW UNDERWAY OR PLANNED FOR NEAR FUTURE. NAKAMURA PROVIDED THE FOLLOWING INFORMATION:

2. SUEZ CANAL EXPANSION LOAN OF 38 BILLION YEN (ABOUT 127 MILLION DOLS AT 300 YEN/DOLLAR, APPROXIMATE CURRENT RATE); FOLLOWING INITIAL PROMISE BY MIKI, INTERGOVERNMENTAL NOTES WERE EXCHANGED IN APRIL 1975 AND LOAN AGREEMENT BETWEEN JAPAN'S OVERSEAS ECONOMIC COOPERATION FUND AND EGYPT'S SUEZ CANAL AUTHORITY WAS EXECUTED JULY 26, 1975. LOAN IS TO BE USED FOR FINANCING OF FOREIGN EXCHANGE EXPENDITURES FOR PURCHASE OF JAPANESE GOODS AND SERVICES NECESSARY FOR THE PROJECT. LOAN AGREEMENT STATES THAT WORK IS EXPECTED TO BE COMPLETED WITHIN 42 MONTHS, THAT IS, BY END OF 1978. FOREIGN CURRENCY REQUIREMENTS, TOTALING 38 BILLION YEN, ARE STATED AS FOLLOWS: 1975, 12.276 BILLION YEN (40.92 MILLION DOLS.); 1976, 9.974 BILLION YEN (33.25 MILLION DOLS.); 1977, 9.974 BILLION YEN; AND, 1978, 5.776 BILLION YEN (19.25 MILLION DOLS.). LOAN AGREEMENT STIPULATES THAT DISBURSEMENTS MUST BE COMPLETED BY APRIL 15, 1980. OECF OFFICIAL TOLD EMBASSY THAT ACTUAL DISBURSEMENTS TO DATE AMOUNT TO 7.052 BILLION YEN (23.5 MILLION DOLS.). (THIS IS SOMEWHAT LESS THAN PROJECTED ANNUAL REQUIREMENTS STATED ABOVE AND PERHAPS INDICATES THAT WORK IS BEHIND SCHEDULE.)

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3. JAPAN EXIM BANK CREDIT LINE OF 100 MILLION DOLLARS. THIS PROPOSED LINE WOULD BE FOR SUPPLIER'S CREDITS TO JAPANESE FIRMS EXPORTING TO EGYPT. SHORTLY AFTER INITIAL OFFER BY MITI MINISTER KOMOTO, (REF. B), GOJ SUBMITTED DRAFT NOTE EXCHANGE TO GOE. AS IN CASE OF OTHER JAPAN EXIM SUPPLIERS' CREDITS SINCE JULY 1975, WHEN EXIM LENDING WAS RESUMED AS GESTURE OF SUPPORT FOR SADAT,

DRAFT CONTAINS CLAUSE INVOLVING GUARANTEE OF CREDIT LINE REPAYMENT BY EGYPTIAN CENTRAL BANK. GOE HAS NOT RESPONDED TO DRAFT YET, BUT ASSUMING GOE AGREEMENT, EXCHANGE OF NOTES COULD TAKE PLACE QUICKLY. NEXT STEP WOULD BE EXIM BANK LOAN AGREEMENTS, PERHAPS ON CASE BY CASE BASIS, PERHAPS FOR TOTAL PROJECTED LENDING DURING GIVEN YEAR. TOTAL CREDIT LINE IS TO BE USED DURING THREE YEAR PERIOD BEGINNING WITH SIGNING OF FIRST LOAN AGREEMENT. BASED ON PAST EXPERIENCE, GOJ ANTICIPATES DELAY BETWEEN EXCHANGE OF NOTES AND SIGNING OF FIRST LOAN AGREEMENT, DUE TO GOE PRACTICE OF SUBMITTING NOTES TO NATIONAL LEGISLATURE FOR APPROVAL, A PROCESS WHICH CONSUMES SOME MONTHS. DELAY FOR THIS REASON HAS PARTICULARLY VEXED JAPAN'S FINANCE MINISTRY IN LIGHT OF CHARACTERIZATION OF SOME EARLIER AID AS EMERGENCY AID, AND GOJ HAS ASKED GOE TO ACCELERATE DOMESTIC APPROVAL PROCEDURES SO AS TO BE ABLE TO SIGN LOAN AGREEMENTS MORE QUICKLY THIS TIME. EVEN SO, GOJ EXPECTS USUAL PROCEDURE TO BE FOLLOWED IN THIS CASE, TOO. LOAN, WHEN IT IS REALIZED, MAY BE USED FOR PURCHASE OF WIDE RANGE OF JAPANESE GOODS. IN PRINCIPLE, IT WILL BE CONCESSIONAL, THOUGH DEGREE OF CONCESSIONALITY AND TERMS HAVE NOT BEEN DECIDED. NOR HAS PRECISE YEN AMOUNT BEEN DETERMINED; IN PRINCIPLE, AVERAGE EXCHANGE RATE DURING WEEK PRECEEDING EXCHANGE OF NOTES WILL BE USED FOR THIS COMPUTATION.

4. EMBASSY COMMENT. IN LIGHT OF VARIOUS UNCERTAINTIES IT IS DIFFICULT TO PREDICT ACCURATELY PACE OF DISBURSEMENTS OF JAPANESE ASSISTANCE DISCUSSED ABOVE AND IN REFTEL A. HOWEVER, ASSUMING A) 50 MILLION EMERGENCY NON-PROJECT AID IS DISBURSED EVENLY IN 1976 AND 1977; B) 50 MILLION PROJECT AID IS DISBURSED EVENLY OVER 1977-8-9; CONFIDENTIAL

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C) 127 MILLION SUEZ CANAL LOAN IS DISBURSED ONE YEAR BEHIND SCHEDULE SET FORTH IN LOAN AGREEMENT, I.E., DURING PERIOD 1976-7-8-9; AND FINALLY, D) 100 MILLION EXIM CREDIT LINE IS DISBURSED EVENLY OVER PERIOD 1977-8-9; JAPANESE DISBURSEMENTS UNTIL 1980 MIGHT LOOK LIKE THIS:

	1976	1977	1978	1979
50 MILLION EMERGENCY			25.	25.
50 MILLION PROJECT			16.6	16.6 16.6
127 MILLION SUEZ CANAL			40.9	33.3 33.3 19.2
100 MILLION JAPAN EXIM				33.3 33.3 33.3
TOTAL		65.9	108.2	83.2 69.1

FOR ALL ITS SLOWNESS AND RELUCTANCE TO PROVIDE NON-PROJECT AID AT LEVELS USG HAS SUGGESTED, GOJ HAS

COMMITTED ITSELF TO A SUBSTANTIAL LEVEL OF ASSISTANCE
TO EGYPT OVER THE NEXT SEVERAL YEARS. END COMMENT.
HODGSON

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